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RUEHRG/AMCONSUL RECIFE 6942
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SUBJECT: BRAZIL: U.S. Treasury Secretary Paulson Meeting with
Planning Minister Bernardo

¶1. (SBU) In a July 11 meeting with Planning Minister Paulo Bernardo, U.S. Treasury Secretary Henry Paulson outlined the focus of his visit to Brazil: (1) increasing private sector infrastructure finance; (2) facilitating the development of small and medium-sized enterprise development through increased access to capital and a reduction in business barriers; (3) increasing the production and usage of biofuels; and, (4) increasing commercial interchange between the U.S. and Brazil through channels such as the CEO forum.

¶2. (SBU) Secretary Paulson indicated his interest in promoting bilateral cooperation and in defining a bilateral agenda that will lead to specific, tangible results. He noted that Treasury recently announced initiatives in infrastructure finance (in conjunction with the IFC and IDB) and small and medium-sized enterprise development in Latin America (in conjunction with OPIC). He also stated that he hopes to expand Treasury technical assistance with Brazil and the region in these areas and that he is interested in increasing staff-level interaction between U.S. Treasury and Brazil's Planning and Finance Ministries.

¶3. (SBU) Minister Bernardo discussed the progress as well as the continued economic challenges that Brazil faces. He noted the country's substantial macroeconomic progress in recent years (higher growth, improved fiscal performance, lower and more stable rates of inflation), rising personal disposable income levels, and the favorable impact of rating agency upgrades of Brazil to investment grade status, which will serve as an important catalyst for further private investment.

¶4. (SBU) Minister Bernardo highlighted increased spending on infrastructure as Brazil's major economic challenge. He noted that the positive role played by IFIs (World Bank and IDB) in improving the country's infrastructure, but felt they should further increase their involvement. Specifically, he recommended that the World Bank augment its use of guarantees to help leverage more private investment. Minister Bernardo gave one specific example where he believes increased infrastructure investment will benefit Brazil's economy - the development of a rail network across the Amazon region in lieu of much costlier road construction. Minister Bernardo said he had a number of other "big infrastructure projects" in mind (but did not give specifics), and agreed with Secretary Paulson's

suggestion to increase future staff-level dialogue.

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